

Message Text

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ACTION EB-07

INFO OCT-01 AF-08 ARA-10 EUR-12 EA-09 NEA-10 IO-13 ISO-00

AID-05 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 USIA-15

TRSE-00 XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01

OMB-01 NSC-05 SS-15 STR-04 CEA-01 PA-02 PRS-01 L-03

H-02 IGA-02 /153 W

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 1300

INFO AMEMBASSY BONN

AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

AMEMBASSY CAIRO

AMEMBASSY CANBERRA

AMEMBASSY ISLAMABAD

AMEMBASSY JAKARTA

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY MEXICO CITY

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY TAIPEI

AMEMBASSY TEL AVIV

AMEMBASSY TOKYO

USEC BRUSSELS 242

USUN NEW YORK 833

USMISSION GENEVA

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E.O. 11652: N/A

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TAGS: EGEN

SUBJ: IMF/IBRD ANNUAL MEETINGS: OVERVIEW

1. IN THE ABSENCE OF MAJOR MONETARY ISSUES, DEVELOPMENT FINANCE ISSUES DOMINATED DISCUSSION AT THE ANNUAL MEETINGS OF THE FINANCE MINISTERS OF IMF AND IBRD MEMBER COUNTRIES.

2. THE EXCHANGE BETWEEN INDUSTRIAL AND DEVELOPING COUNTRY REPRESENTATIVES ON DEVELOPMENT AND MONETARY ISSUES WAS MODERATE IN TONE AND CONSTRUCTIVE IN CONTENT. THE LDCS IN THE JOINT IMF/IBRD DEVELOPMENT COMMITTEE ISSUED A GROUP OF 24" COMMUNIQUE ON THEIR AIMS, BUT--IN CONTRAST TO THE JAMAICA MEETING IN JANUARY--THEY HAD NO SPECIFIC PLATFORM REQUESTS THAT THEY PRESSED FOR ACTION AT THIS SESSION. IN GENERAL THE "MIDDLE-INCOME" LDCS DOMINATED THE LDC GROUP AS WAS REFLECTED BY THE PRIORITIES OF THE G-24 WANT LIST (A GROWING WORLD BANK, MORE LIQUIDITY FOR LDCS THROUGH THE IMF, MAINTENANCE OF FLOWS TO LDCS FROM COMMERCIAL BANKS AND CAPITAL MARKETS) AND BY A CONSERVATIVE POSITION ON LDC DEBT THAT IS VERY CLOSE TO THAT OF THE U.S. AND OTHER MAJOR INDUSTRIAL COUNTRIES.

3. IMF MANAGING DIRECTOR WITTEVEEN, AND INDUSTRIAL COUNTRY SPOKESMEN, EMPHASIZED TWO THEMES ON THE STATE OF THE WORLD ECONOMY. FIRST, LOWER RATES OF INFLATION IN THE INDUSTRIAL COUNTRIES ARE CRUCIAL TO GROWTH PROSPECTS. SECOND, MASSIVE BORROWING FROM FOREIGN CAPITAL MARKETS BY SEVERAL DEVELOPING AND INDUSTRIAL COUNTRIES WILL NOT BE SUSTAINABLE UNLESS THESE COUNTRIES TAKE STEPS TO STRENGTHEN THEIR LONGER-TERM BALANCE OF PAYMENTS PROSPECTS. THE DEVELOPING COUNTRIES, BY CONTRAST, STRESSED MAINTENANCE OF CURRENT LEVELS OF COMMERCIAL BANK AND CAPITAL MARKET FLOWS TO THEM FROM INDUSTRIAL COUNTRIES, AND CREATION OF MORE LIQUIDITY THROUGH THE IMF TO BOLSTER LDCS' ABILITY TO SERVICE THEIR DEBT OBLIGATIONS.

4. WORLD BANK PRESIDENT MCNAMARA, PLAYING THE ROLE OF THE CONSCIENCE OF THE RICH, MADE AN EMOTIONAL PLEA AT THE OPENING PLENARY SESSION FOR GREATER RESOURCE TRANSFERS
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TO DEVELOPING COUNTRIES, PARTICULARLY THE LOW-INCOME LDCS. HE CHARACTERIZED THE EXISTING AID FLOWS TO LOW-INCOME LDCS AS "DISGRACEFULLY INADEQUATE" AND TENDED TO HIGHLIGHT A GROWING WORLD BANK/IDA AND GREATER AID FROM THE U.S. AND JAPAN AS THE NEEDED REMEDIES.

5. SECRETARY SIMON'S STATEMENT STRESSED THE CRUCIAL ROLE OF DOMESTIC POLICIES IN DEVELOPING COUNTRIES. HE

HIGHLIGHTED TRADITIONAL U.S. LEADERSHIP IN DIRECT RESOURCE TRANSFERS TO LDCS AND REAFFIRMED A STRONG U.S. COMMITMENT TO SUCH TRANSFERS THROUGH A CONTINUING AND STRENGTHENED BILATERAL AID PROGRAM AND U.S. LEADERSHIP IN MULTILATERAL DEVELOPMENT PROGRAMS, PARTICULARLY THE WORLD BANK GROUP. SECRETARY SIMON INDICATED A STRONG U.S. PREFERENCE FOR SUCH DIRECT RESOURCE TRANSFERS IN SUPPORT OF DEVELOPMENT (IN ADDITION TO MORE LIBERALIZED TRADE AND INVESTMENT) AND OUR SKEPTICISM AS TO THE EFFICIENCY OF INDIRECT TRANSFERS THROUGH GENERALIZED DEBT RELIED ON INDEXED COMMODITY PRICES OR COMMODITY FUNDS WHICH SEEK TO INCREASE PRICES TO STRUCTURALLY HIGHER LEVELS.

6. THE CLEARER ISSUES JOINED BY DEVELOPING AND INDUSTRIAL COUNTRIES AT THE ANNUAL MEETINGS RELATED TO THE FUTURE RESOURCES AND PRIORITIES OF THE WORLD BANK GROUP. THE DEVELOPING COUNTRIES URGED REPLENISHMENT OF THE WORLD BANK'S SOFT-LOAN WINDOW, IDA, AT A LEVEL OF \$9 BILLION FOR THE THREE-YEAR PERIOD BEGINNING NEXT JUNE. MCNAMARA EXPRESSED OPTIMISM THAT A REPLENISHMENT OF \$8 TO \$9 BILLION COULD BE ACHIEVED. THE MAJOR INDUSTRIAL COUNTRIES PLEDGED STRONG SUPPORT FOR IDA BUT GENERALLY AVOIDED SETTING TARGETS FOR THE INCREASED IDA RESOURCES TO BE ACHIEVED BY THE CONCLUSION OF NEGOTIATIONS NEXT YEAR.

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7. CONCERN WAS EXPRESSED FROM ALL SIDES THAT UNAVOIDABLE
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DELAYS IN IDA NEGOTIATIONS WOULD LEAVE IDA WITHOUT ABILITY
TO COMMIT NEW LOANS FOR MUCH OR ALL OF FY 78. BUT ONLY
THE U.S. OFFERED A PROPOSAL TO AVOID THIS GAP IN IDA'S
LENDING. SECRETARY SIMON PROPOSED THAT IDA'S DONOR COUNTRY
AGREE BY JANUARY TO A ONE YEAR "BRIDGE" FINANCING OF IDA
WHICH WOULD PROVIDE NEW COMMITMENT AUTHORITY IN AMOUNT AT
LEAST EQUAL TO THE CURRENT LEVEL. THIS WOULD GIVE PAR-
LIAMENTS AN OPPORTUNITY TO APPROPRIATE THE FUNDS FOR THE
BRIDGE YEAR BY JUNE 30, EVEN THOUGH THE ENTIRE THREE-YEAR
REPLENISHMENT FOR IDA MAY NOT BE NEGOTIATED MUCH BEFORE
THAT DATE. IDA DONORS WILL DISCUSS THIS U.S. INITIATIVE
TO PREVENT A LAPSE IN IDA'S PROGRAM AT A MEETING IN KYOTO,
JAPAN OCTOBER 12 AND 13.

8. DISCUSSION ON THE WORLD BANK ITSELF INDICATED GREATER
NORTH-SOUTH DIVERGENCE OF VIEWS, ESPECIALLY ON THE
PRIORITY TO BE GIVEN IN THE NEXT SEVERAL YEARS TO THE
OBJECTIVES OF STRENGTHENING THE BANK'S FINANCIAL POSITION
ON THE ONE HAND AND INCREASING ITS LENDING LEVEL ON THE
OTHER. THE MAJOR INDUSTRIAL COUNTRIES, PARTICULARLY THE
U.S., FRANCE, AND THE U.K., GAVE STRONG PRIORITY TO
STRENGTHENING THE BANK'S FINANCIAL POSITION, SINCE THE
LONG-TERM GROWTH OF ITS LENDING DEPENDS FUNDAMENTALLY ON

ASSURING CONTINUATION OF THE BANK'S ABILITY TO BORROW VERY LARGE AMOUNTS ON THE MOST FAVORABLE BASIS POSSIBLE. ON THESE GROUNDS, THE BANK BOARD HAS DECIDED THAT PRUDENT MANAGEMENT CALLS FOR HOLDING NEW LENDING TO THE LEVEL THAT CAN BE MAINTAINED ON THE BANK'S AUTHORIZED CAPITAL BASE. IN AN UNUSUAL MOVE, WORLD BANK PRESIDENT MCNAMARA, WITH SUPPORTING COMMENTS FROM MANY DEVELOPING COUNTRIES, CALLED FOR REVERSAL OF HIS BOARD'S DECISION ON THIS POINT, SO THAT NEW WORLD BANK LENDING COULD RISE TO A LEVEL THAT PRESUMES A CAPITAL INCREASE EVEN BEFORE MEMBER GOVERNMENTS APPROVE ONE. MCNAMARA AND THE DEVELOPING COUNTRIES ARGUED THAT LDCS NEEDS CALL FOR BREECHING THE LIMIT OF \$5.8 BILLION WHICH THE BOARD'S DECISION EFFECTIVELY PUTS ON ANNUAL BANK LENDING UNTIL A NEW CAPITAL INCREASE IS AGREED UPON. ULTIMATELY, DECISIONS ON A WORLD BANK CAPITAL INCREASE, AND ON LONG-TERM LENDING OBJECTIVES WILL MAKE THIS ISSUE MOOT. INDUSTRIAL AND DEVELOPING COUNTRIES AGREED THAT DISCUSSIONS ON THE BANK'S FUTURE LENDING

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OBJECTIVES SHOULD BE INITIATED NEXT YEAR, TO LAY A BASE FOR SUBSEQUENT CONSIDERATION OF A CAPITAL INCREASE. SECRETARY SIMON MADE CLEAR THAT THE U.S. OBJECTIVE IS MAINTENANCE OF A FINANCIALLY STRONG WORLD BANK, NOT A STATIC LENDING LEVEL.

9. THE SESSIONS OF THE 20-MEMBER IMF INTERIM COMMITTEE, AND THE SIMILARY STRUCTURED IMF/IBRD JOINT DEVELOPMENT COMMITTEE INDICATED THE USEFULNESS OF THSE FRANK AND BUSINESS-LIKE MEETINGS OF MINISTERS. ATTENTION THIS YEAR WAS ON THE DEVELOPMENT COMMITTEE, WHICH ELECTED A NEW CHAIRMAN, FINANCE MINISTER VIRATA OF THE PHILIPPINES, AND EXECUTIVE SECRETARY, SIR RICHARD KING, CURRENTLY PERMANENT SECRETARY OF THE BRITISH OVERSEAS DEVELOPMENT MINISTRY. THE COMMITTEE ADOPTED AN EXPANDED WORK PROGRAM AND SET UP A NEW WORKING GROUP ON OFFICIALS FLOWS AND RELATED MATTERS. THE GROUP WILL BEGIN ITS WORK, HOWEVER, WITH CONSIDERATION OF THE U.S. PROPOSAL FOR AN INTERNATIONAL RESOURCES BANK, ON THE BASIS OF A STUDY OF THE IRB TO BE COMPLETED BY WORLD BANK STAFF. THE WORKING GROUP ON CAPITAL MARKETS WILL CONTINUE ITS WORK ON CAPITAL MARKETS ACCESS FOR DEVELOPING COUNTRIES, INCLUDING CONSIDERATION OF THE U.S. PROPOSAL OF AN INTERNATIONAL INVESTMENT TRUST FOR SECURITIES OF LDC ENTERPRISES.

10. THE DEVELOPING COUNTRIES, WHILE VOICING DISAPPOINTMENT WITH THE ACHIEVEMENTS OF THE DEVELOPMENT COMMITTEE SO FAR, STRONGLY SUPPORTED ITS CONTINUATION AND EXPANSION OF ITS ROLE. BOTH DEVELOPING AND INDUSTRIAL COUNTRIES POINTED TO A POSSIBLE ROLE FOR THE DEVELOPMENT COMMITTEE

IN CONSIDERING RESOURCE TRANSFER ISSUES THAT MAY REQUIRE
FURTHER WORK AFTER CONCLUSION OF THE CONFERENCE ON INTER-
NATIONAL ECONOMIC COOPERATION (CIEC).

11. POLITICAL ISSUES WERE MUTED AT THE ANNUAL MEETING.
SEVERAL DEVELOPING COUNTRIES, MOST EXPLICITLY PAKISTAN,
CALLED FOR THE OUSTER OF THE REPUBLIC OF CHINA, BUT THEY
TOOK NO ACTION TO PRESENT A PROPOSAL FOR DECISION. ARAB
DELEGATIONS WALKED OUT DURING THE ISRAELI GOVERNORS SPEECH.
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